

# 2011-12 – 1<sup>st</sup> QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

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## Quantitative Performance Measures

### Total Fund Performance

Weight	Performance Measure	Incentive Schedule	1 <sup>st</sup> Quarter Status
70%	Return deviation in basis points relative to: Total Fund performance versus Total Fund benchmark {SJ1CA1 – CPERSTO2IC} *Cost-adjusted Benchmark	-13 basis points = 0 +13 basis points = 1.0 27 basis points = 1.5	+16 bps {(7.00) – (7.16)}

## Qualitative Performance Measures *(All performance measures utilize standard Qualitative incentive schedule unless otherwise noted)*

### Executive Leadership

Weight	Performance Measure
20%	<p><b><u>Leadership</u></b> - Acts in an ethical, honest and professional manner. Communicates a clear vision of CalPERS' mission and goals. Gains the confidence and commitment of others through enthusiastic expressions of support of the vision and values of the organization. Gains support for courses of action by sharing information, encouraging feedback, listening respectfully, and acknowledging individual concerns.</p> <ul style="list-style-type: none"> <li>By June 30, 2012, lead the Investment Office in the value creation, capacity building, and organization support for the Investment Office by: <ol style="list-style-type: none"> <li>Strengthening and reinforcing a value driven culture that fosters accountability, transparency, and integrity.</li> <li>Participating in training, communication, and recognition activities and events.</li> </ol> </li> </ul> <p><b><u>Teamwork</u></b> - Promotes teamwork and cross-functional collaboration and communication in support of CalPERS' strategic goals. Presents well-organized arguments that are issue-oriented, not personal. Resolves disagreements by first identifying common ground and then exploring differences. Shares credit for good ideas and acknowledges the contributions, creativity and abilities of others.</p> <ul style="list-style-type: none"> <li>By June 30, 2012, lead cross asset class initiatives, such as the Investment Office Roadmap, Investment Strategy Group, Investment Proposal Tracking System, Operating Committee, and technology steering committees to improve investment performance, cost effectiveness, and manage risk.</li> </ul> <p><b><u>Succession Planning</u></b> - Participates in an ongoing succession planning program to assess the workforce and create strategies to retain and develop the skills of employees. Identifies training, development and knowledge transfer strategies to meet future workforce needs. Contributes to the enhancement of organizational competencies and skills by providing opportunities for individual staff development and improvement.</p> <p><b><u>Diversity and Inclusion</u></b> - Demonstrates diversity and inclusion awareness and personally cultivates a positive work environment where the differences of all staff are recognized and valued. Leads strategies and approaches to increase the level of diversity within the CalPERS' workforce. Through personal example and leadership, fosters a climate where all are treated with dignity and respect.</p> <p><b><u>Executive/ Board Relations</u></b> - Effectively represents the enterprise at executive management meetings, stakeholder group meetings, and at CalPERS Board of Administration meetings. Prepares and/or directs the preparation of thorough and accurate Board agenda materials and provides sound technical consultation and appropriate recommendations. Makes clear and concise presentations to the Board of Administration and Board Committees on relevant issues.</p> <p><b><u>Business Planning and Fiscal Management</u></b> - Leads the business planning process by establishing clear, measurable operational objectives which align with CalPERS' strategic Goals. Identifies resource requirements to support organizational priorities. Ensures cost-effective use of resources (i.e., operational expenses, equipment and staff resources) and contributes to the overall prudent management of CalPERS trust funds.</p> <p><b><u>Management of Risk</u></b> - Ensures that policy and program decisions are made with consideration for potential financial, compliance, legal, security, operational, reputational, political, strategic, and other risks. Implements risk mitigation strategies. Gathers risk intelligence to support executive and Board decision-making.</p> <ul style="list-style-type: none"> <li>Conduct an asset liability management process that is transparent, allows input by multiple stakeholders and results in the development of sustainable asset allocation policy.</li> <li>By June 30, 2012, present to the Board an enhanced risk aware framework to be used in future workshops on Asset/Liability management.</li> </ul>

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## 1<sup>st</sup> Quarter Status:

### Leadership

Recognition accomplishments include holding a brown bag lunch, an all INVO staff forum, 2 CIO newsletter updates and 72 ace award recipients for the first quarter. Participated in CalPERS Annual Ice Cream Social. Attended the recognition event for Real Assets.

Met with large global pension fund leaders at meeting sponsored by the British Columbia Investment Management Corporation's (BCIMC) Forum and discussed our infrastructure program at Clinton Global Initiative.

Attended and participated in the Council of Institutional Investors Board meeting (chair), Pacific Pension Institute (chair) 2011 Summer Roundtable focusing on Asia's southern rim, Council of Institutional Investors, 2011 Fall Meeting – Innovators and CalPERS Board offsite.

Did media interviews with Dale Kasler, Sacramento Bee, August 8; Maria Bartiromo, Closing Bell on CNBC, July 21 & August 17; Becky Quick and Joe Kernen, Squawk on the Street on CNBC, August 11; Jennifer Wieczner, Smart Money Magazine, September 7; Ralph R. Ortega, Hedge Fund Alert, September 27; Andrew Ross Sorkin, Michelle Caruso-Cabrera and Steve Liesman, Squawk Box on CNBC, September 28; Scarlet Fu, InBusiness on Bloomberg TV, September 28; Michael Corkery of Wall Street Journal, September 28; David Faber, Strategy Session on CNBC, October 11; Liz Claman and David Asman, After the Bell on Fox Business News, October 13.

Continued the INVO speaker series by talks with David A. Viniar, Chief Financial Officer at Goldman Sachs – "Assessing and Managing Risk".

Attended the INVO Travel Training for Investment staff.

### Teamwork

Completed Rapid Results projects on CIO Reporting, Board Reporting and Operating Even Escalation.

Launched 3 new Rapid Results projects.

Kicked off 2012-13 planning cycle with 2 day INVO Senior Leader meeting.

New master custody relationship is substantially implemented.

Met regularly for Investment Strategy Group meetings.

Attended Deputies meetings with CEO and executive staff.

Launched private equity infrastructure project to identify private equity accounting and information needs.

### Succession Planning

Met regularly with direct reports to provide feedback, mentoring and coaching. Held Huddle meetings with senior staff members. Met with direct report to discuss their annual performance reports. Had successfully calibration meetings to review PM and above evaluations.

AIM has reorganized their unit. Staff reassigned to their respective functional areas. Descriptions to match the respective duties have been rewritten.

### Diversity and Inclusion

Integrated business plan objectives for Emerging Manager and Diversity & Inclusion initiatives into 11/12 INVO Roadmap.

Announced Request for Information related to an emerging domestic manager new vehicle initiative in AIM Program, received 41 proposals.

New Real Estate Emerging Manager Program approved by CalPERS Board of Administration.

INVO staff hosted 15 members as part of a national pension fund tour organized by New America Alliance, a diversity non-profit industry association focused on economic empowerment for the Latino American community.

Inaugural Toigo Foundation Post Graduate Fellow, Tanaka Maswoswe, successfully completed his internship rotation with AIM Program.

INVO staff are notified of all vacancy announcements prior to the VPOS postings.

All who are interested in participating in the Rapid Results are given the opportunity.

### Executive/Board Relations

Continue to inform Board of investment issues through Board weekly updates. Continue to conduct IC briefings with Board members.

Rapid Results – agenda process. Participated in the Board Workshop on Sustainable Investing.

### Business Planning and Fiscal Management

INVO is providing significant support to Board Governance effort, Personal Trading Policy development/implementation, and CFO Office implementation.

Stepped up Roadmap and budget planning during the Fall, with more and longer meetings with senior staff. Intent is to achieve full integration of planning and budgeting for FY 2013.

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## Management of Risk

Risk management system on track and scheduled to go-live before year-end. System implementation status and reports have been presented to ISG.

Planning risk focused session at Board's January offsite.

Frequent discussions during the quarter on market volatility and rebalancing kept focus on quantitative and qualitative risk assessment.

Corporate Governance - Conducted Board workshop on proposals to integrate environmental, social and governance factors across the total fund held in August 2011. Presented revisions to the CalPERS Principles of Accountable corporate governance.

New Focus List methodology being tested through first year of implementation. New database, the Diverse Director Datasource, commissioned and launched September 2011 and now independently managed via private sector contractor, Governance Metrics International.

Representation to Congress, SEC, IASB, FASB, PCAOB and other agencies on behalf of CalPERS via direct testimony, meetings, comment letters, participation in Roundtable discussions and co-ordination with other institutional investors on priority issues. Activity covers implementation of Dodd-Frank, particularly regarding derivatives reform, auditing and accounting standards, and sustainability risk reporting and governance measures such as proxy access.

Capital Allocation – Implementation may be rolled in the multi-asset class (MAC) Partners, which is on schedule. Capital Allocation models for private asset classes have been reviewed.

Private Equity - Rebalance and restructure of the Private Equity continues. Outside Experts have been contracted to run a pilot program to review three managers, two fund of funds and one funds (FTI). Staff are benchmarking the markets to evaluate the best time to go to market for secondary. Evaluations are being made to manage the balance of the legacy portfolio in cost effective manner.

Actively participated in several meetings related to infrastructure investments (Clinton Global Initiative, Real Assets, Governmental Affairs, and Treasurer's Office).

Met with staff from all asset classes and participated in establishing enhancement for the CalPERS for California Report on July 27, 2011.

Participated in the Real Estate Industrial Sector Strategy Council of Advisors meetings.

Met with senior staff daily regarding market conditions and strategies.

I also represented CalPERS as Chair of the Council of Institutional Investors and the Pacific Pension Institute.

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## Enterprise-wide Initiatives and Collaboration

Weight	Performance Measure
10%	<p>Achieve improvements in enterprise management during fiscal year 2011/2012 through fulfillment of the following initiatives:</p> <ol style="list-style-type: none"><li>1. Maintain an average position vacancy rate of 5 percent or less.</li><li>2. Maintain a 90 percent completion rate for employee performance reviews (e.g., EPADs, probationary reports).</li><li>3. Ensure that all Form 700 Statements of Economic Interest are filed by scheduled employees in compliance with the legally mandated April 1, 2012 due date.</li><li>4. Ensure all scheduled employees complete the legally mandated AB 1234 ethics training course by June 30, 2012.</li><li>5. Ensure operational resources are managed within prescribed budget limits.</li><li>6. Resolve all outstanding audit findings within 12 months of receipt of audit report.</li><li>7. Lead the efforts to strengthen the organization's commitment to the principles of diversity and inclusion by conducting a minimum of two diversity and inclusion awareness sessions with direct reports and by completing the Executive Diversity and Inclusion Journey course.</li><li>8. Lead the efforts to reinforce the adoption of CalPERS' Core Values by conducting quarterly sessions with direct reports addressing the guiding behaviors emanating from the Core Values, and by spending a minimum of 2 hours per month on employee recognition.</li></ol>
<p><b>1<sup>st</sup> Quarter Status:</b></p> <p>Hired SPM Investment Compliance and recruiting for team. A core value is featured at the bimonthly INVO forums. Core values are reinforced at ACE Award ceremonies. All other HR items are on target.</p>	